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HETCH HETCHY POWER DISPOSAL

Facts and Recommendations

Prepared and Issued by

THE SAN FRANCISCO CHAMBER OF COMMERCE
THE SAN FRANCISCO REAL ESTATE BOARD
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FACTS

Hetch Hetchy power will be available at Newark in April, 1925.

The Railroad Commission's valuation of the power companies' plants preliminary to purchase or condemnation, will not be completed until late in 1925. Additional time will then be required for rehearings before the Railroad Commission, followed by probable appeal to the Supreme Court of the State.

March, 1926, is probably the earliest date that the Railroad Commission's valuation figures can be reported to the Supervisors, if upheld by the Supreme Court. This date may be considerably later, if any modification is ordered.

The present plans of the Supervisors contemplate calling a power bond election as soon as the Railroad Commission's figures are final.

If power bonds are subsequently voted by the people an additional period will elapse before the city can legally secure possession of a distributing system. This period may run for years beyond the date of a bond election.

The defeat since 1918 of four proposed charter amendments designed to increase the debt limit, and of three proposals since 1910 to buy the Spring Valley Water System, indicate that a two-thirds favorable vote on a power bond proposition is doubtful.

The Pacific Gas & Electric Co., and the Great Western Power Co., in writing, have stated that this power is worth about \$2,000,000 a year at Newark. Both Companies have

expressed their willingness to participate in handling this power on some such basis.

A gross revenue of \$2,000,000 per annum from the disposal of Hetch Hetchy power at Newark would mean a net revenue of at least \$1,300,000 per annum, which could be applied on Hetch Hetchy debt charges. This net revenue is equivalent to 19 cents on the tax rate.

The \$700,000 difference between gross revenue and net revenue is made up by the estimated annual costs of operation, maintenance, insurance, depreciation and overhead. More than half of these costs would have to be borne by the city, as a dead loss, if the power is not used and the power house not operated.

Hetch Hetchy debt charges for the fiscal year 1925-26 will approximate \$2,750,000, equivalent to a tax rate of about 40 cents on each \$100 of assessed valuation.

Disposal of Hetch Hetchy power through the existing systems, under an agency agreement, purely temporary in character and restricted to the interim until, and if, the city acquires its own distribution facilities, is legal, and has been so declared by the City's Special Hetch Hetchy Counsel, and the Solicitor of the United States Department of the Interior, and also by the Supreme Court of California in a similar case relative to the City of Los Angeles.

The expenditure of \$217,000 for towers and insulators for the Newark-San Francisco transmission line has been ordered by the Board of Supervisors. Against this we have vigorously protested. This expenditure will be useless without an additional \$450,000 to complete the line, (the wire having already been purchased), making a total ex-

pense for this line of \$800,000. The line will then be useless without the expenditure of additional millions, requiring authorization by the people, for step down station, feeder lines, sub-stations, and other elements of a distributing system.

This present proposed construction would duplicate existing facilities, and would result in a heavy loss if the city takes over the local distributing systems of the existing companies. Likewise it would be an economic waste if it does not. This construction would not increase the return that the city could secure from the disposal of Hetch Hetchy power over the return that might be secured from such disposal at Newark.

Distribution of Hetch Hetchy power in San Francisco alone, and subject to the limited diversity in uses of power over the whole 24 hours per day, that obtains in San Francisco, would restrict the "load factor"—the actual operation of the plant, in relation to its full 24-hour capacity—to between 40% and 47%, and would restrict the amount of power that could be delivered to consumers' meters to about 200,000,000 kilowatt hours per year. The disposal of Hetch Hetchy power under an agency contract and through the large regional system of either of the existing companies would give the City the benefit of a more intensive usage, and a much higher SYSTEM "load factor"; this, at the 63 per cent "load factor" at which the Pacific Gas & Electric regional system is operated would mean that 290,000,000 kilowatt hours of Hetch Hetchy power would be available for annual delivery to consumers' meters. At only 5 mills per kilowatt hour, the loss of 90,000,000 kilowatt hours delivered would amount to approximately \$450,000 per year.

RECOMMENDATIONS

1. The city should at once arrange for the disposal of Hetch Hetchy power through the agency of existing power companies, and over existing lines, from the time that the power is available in April, 1925, until the city, as a result of a vote of the people, may acquire its own distributing facilities, which according to the best information available, cannot be less than several years.

2. Such a contract should come within the clear terms of an agency arrangement under which the gross revenue of the city would be dependent on rates charged, and the return to the agent for its services would be in the nature of a fixed fee or a unit price per unit of power handled, payable in cash or in power. Such a contract should be definitely based on the interim that is expected to develop, and should be terminable by the city upon an agreed period of notice, after the city can fix the date on which it can secure possession of its own distribution facilities.

3. The rates and conditions of such an agency contract might properly be fixed by the Railroad Commission if the City and the companies fail to agree.

4. The Board of Supervisors having heretofore requested the Railroad Commission of the State of California to evaluate the local distributing systems of existing power companies, it is obvious therefore that no bond proposition should be submitted to the voters until these valuation proceedings are completed, but such bond proposition should be submitted immediately after the completion of such valuation proceedings. Such bond issue should be for

the full amount required for the acquisition of a system adequate for the distribution of the entire output of the Mocassin Creek power house.

5. Any proposal of a partial bond issue that would have the effect of misleading the voters, or of piece-meal construction of a distributing system that would wastefully duplicate existing facilities, should be vigorously opposed.

6. Any proposed large expenditure for a power distributing system must take account of its possible effect on the city's ability to finance other needed projects. The city will have a leeway for new debt in the next fiscal year of \$38,000,000, which leeway is increasing at the rate of only \$7,000,000 a year. Any expenditure of millions for power must be weighed in relation to \$23,000,000 required in 1926 for completing the Hetch Hetchy water system; at least \$38,000,000 to acquire the Spring Valley Water system, the option on which expires in 1933; from \$25,000,000 to \$40,000,000 before 1929 to acquire the Market Street Railway system; and other heavy expenditures to acquire many other much needed public improvements or projects. The total cost of all projects officially proposed, many of which have been officially approved, is beyond the city's ability to economically finance during the next ten or fifteen years.

7. At the last election, heavy increases in salaries and other municipal costs were voted by the people. As a result of these and other demands upon the City, we are now confronted with a condition that requires a heavy increase in the tax rate. For the city to waste any money on an unnecessary power line from Newark to San Francisco or to disregard at this time a net income of \$1,300,000 a year would be utterly inexcusable.



The \$10,000,000 Hetch Hetchy Water Bond Issue



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REPORT OF THE
Committee on Water and Power
OF THE
Municipal Affairs Committee
OF THE
San Francisco Chamber of Commerce



SAN FRANCISCO, CALIFORNIA
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